

**PLEASANT GROVE CITY CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**PLEASANT GROVE CITY CORPORATION**  
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# GILBERT & STEWART

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
Pleasant Grove City Corporation  
Pleasant Grove, UT

January 5, 2007

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Grove City Corporation (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

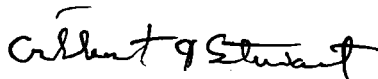
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Grove City Corporation as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated January 5, 2007 on our consideration of Pleasant Grove City Corporation's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the Table of Contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pleasant Grove City Corporation's basic financial statements. The schedules listed in the supplemental section of the Table of Contents, the Schedule of Expenditures of Federal Awards listed in the single audit section of the Table of Contents, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for the purposes of additional analysis and are not a required part of the financial statements of Pleasant Grove City. Such information, except for the Schedule of Impact Fees, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The Schedule of Impact Fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

  
GILBERT & STEWART  
*Certified Public Accountants*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Pleasant Grove City, we offer readers of Pleasant Grove City's financial statements this narrative overview and analysis of the financial activities of Pleasant Grove City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### Financial Highlights

- The total net assets of the Pleasant Grove City increased 12.81% to \$90,976,310.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,755,785. Of this amount \$4,420,437 (57.00%) is available for spending at the government's discretion (unreserved fund balance).
- The total net assets of \$90,976,310 is made up of \$76,632,638 in capital assets net of related debt and \$14,343,672 in other net assets.
- The City's total long-term liabilities increased by \$955,944 during the current fiscal year.

### Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to Pleasant Grove City's basic financial statements. Pleasant Grove City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

***The government-wide financial statements*** are designed to provide readers with a broad overview of Pleasant Grove City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Pleasant Grove City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pleasant Grove City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.

- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Pleasant Grove City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 12 & 13 of this report.

### **Reporting the City's Most Significant Funds**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pleasant Grove City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on pages 14-17 of this report.

The major governmental funds (as determined by generally accepted accounting principles) is the General Fund, Capital Projects Fund, and Redevelopment Agency. The balance of the governmental funds is determined to be nonmajor and is included in the combined statements within this report.

Proprietary funds—Pleasant Grove City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Pleasant Grove City uses enterprise funds to account for its Storm Drain Utility, Water Utility, and Sewer Utility.

The basic proprietary fund financial statements can be found on pages 18-21 of this report.

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pleasant Grove, assets exceed liabilities by \$90,976,310.

By far the largest portion of the City of Pleasant Grove's net assets (84.23%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets.

#### Pleasant Grove City's Net Assets

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Current and other assets	\$14,125,688	\$11,557,911	\$7,859,363	\$5,843,978
Capital assets	56,271,874	53,022,082	33,694,022	29,768,754
<b>Total assets</b>	<b>70,397,562</b>	<b>64,579,993</b>	<b>41,553,385</b>	<b>35,612,732</b>
Long-term debt outstanding	7,043,594	8,105,503	5,676,000	4,741,500
Other liabilities	7,438,903	6,191,261	816,140	509,383
<b>Total liabilities</b>	<b>14,482,497</b>	<b>14,296,764</b>	<b>6,492,140</b>	<b>5,250,883</b>
<b>Net assets:</b>				
Invested in capital assets,				
Net of related debt	48,367,648	43,698,525	28,264,990	24,700,754
Restricted	1,890,330	1,945,097		
Unrestricted	5,657,087	4,639,607	6,796,255	5,661,095
<b>Total net assets</b>	<b>\$55,915,065</b>	<b>\$50,283,229</b>	<b>\$35,061,245</b>	<b>\$30,361,849</b>

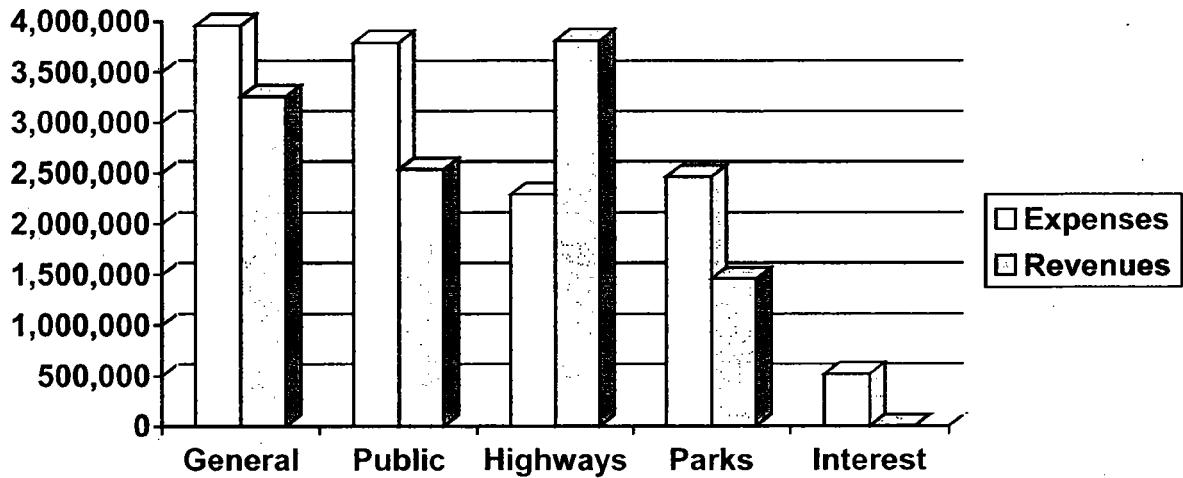


# Pleasant Grove City's Changes in Net Assets

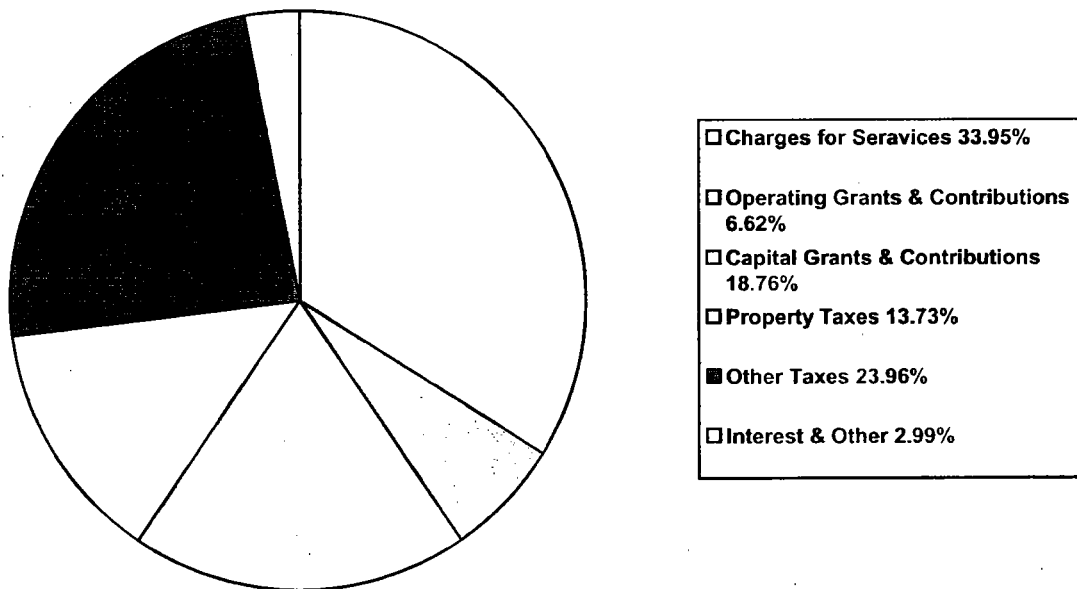
	Governmental Activities		Business-type Activities	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:				
Program revenues:				
Charges for services	\$6,332,419	\$5,879,743	\$4,572,439	\$4,135,605
Operating grants & contribs	1,234,893	1,230,240		
Capital grants & contribs	3,498,496	3,148,533	4,690,959	3,509,394
General revenues:				
Property taxes	2,560,292	2,488,152		
General sales & use tax	3,107,578	2,539,580		
Franchise tax	1,361,604	1,160,711		
Highway tax	0	0		
Unrestricted investment earnings	307,336	155,945	258,697	130,645
Other	250,549	19,926	280,889	22,783
Total revenues	<u>18,653,167</u>	<u>16,622,830</u>	<u>9,802,984</u>	<u>7,798,427</u>
Expenses:				
General government	3,960,503	3,385,875		
Public safety	3,791,574	3,611,197		
Highway & public works	2,288,881	2,047,972		
Parks & recreation	2,463,755	2,092,926		
Interest on long-term debt	516,618	501,527		
Water Utility			2,004,287	2,297,219
Sewer Utility			2,368,775	2,086,824
Storm Drain Utility			384,612	317,997
Total expenses	<u>13,021,331</u>	<u>11,639,497</u>	<u>4,757,674</u>	<u>4,702,040</u>
Increase in net assets	5,631,836	4,983,333	5,045,310	3,096,387
Net assets - beginning	50,283,229	45,299,896	30,361,849	27,265,462
Correction of a prior period			(345,914)	
Net assets - ending	<u>\$55,915,065</u>	<u>\$50,283,229</u>	<u>\$35,061,245</u>	<u>\$30,361,849</u>

The following graphs display the government-wide activities for governmental activities reflected in the above tables:

### Expenses and Program Revenues – Governmental Activities

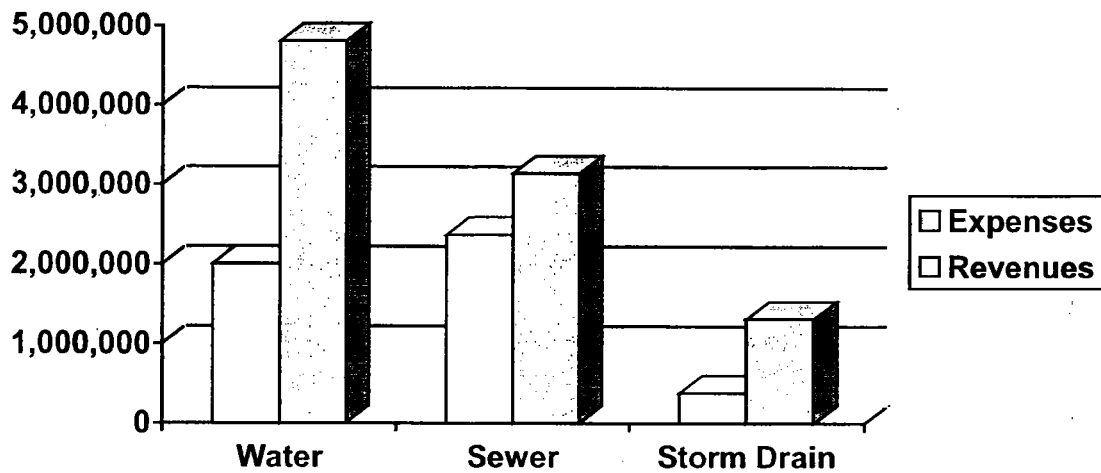


### Revenues by Source – Governmental Activities

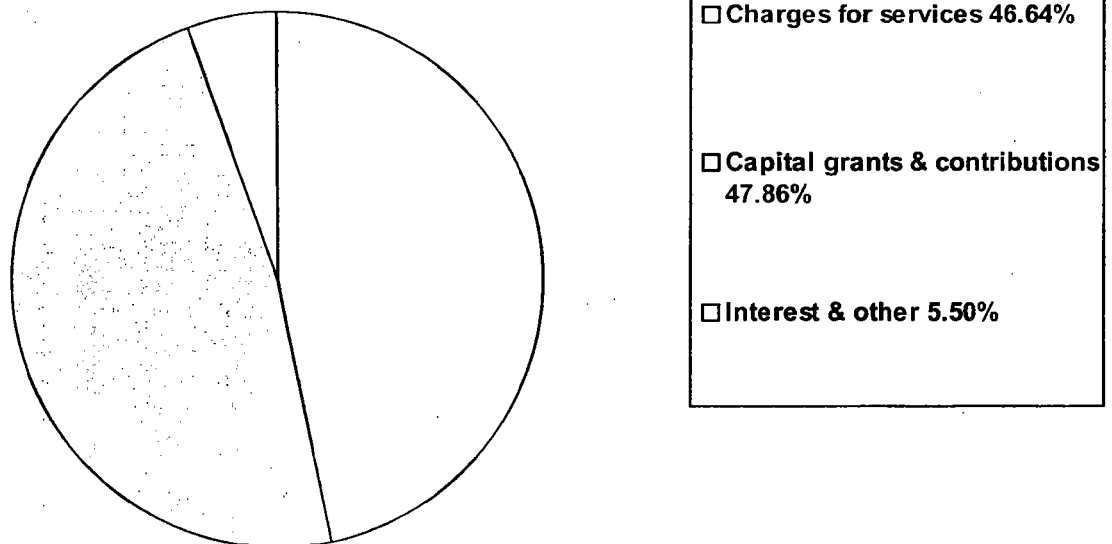


**Business-type activities.** Business-type activities increased the City's net assets by \$5,045,310. As of the end of the current fiscal year, all of the City's business-type funds reported positive net assets.

#### Expenses and Program Revenues – Business-type Activities



#### Revenues by Source – Business-type Activities



#### Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$7,755,785. \$4,420,437 of this total amount (57.00%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unrestricted fund balance of the general fund was \$2,409,169, while total fund balance reached \$3,204,943. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 19.30% of total general fund expenditures, while total fund balance represents 25.68% of that same amount. During the current fiscal year, the governmental funds had transfers out of \$2,850,000. All of which was transferred to the capital projects fund except \$150,000 transferred to Economic Development.

The capital projects fund has a total fund balance of \$5,410,589, all of which is designated for the payment of capital improvement projects.

Taxes continue to be the largest source of revenue in the General Fund and represent 46.07% of total general fund revenues. The largest element of taxes is sales tax. It represents 46.82% of total tax revenues and represents 21.55% of total general fund revenues.

The City maintains enterprise funds to account for the business-type activities of the City. The information is found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water, sewer and storm drain funds at the end of the year amounted to \$6,553,800, a increase of 15.77% from the previous year. Revenues and expenditures for normal operation remained fairly stable with small increases in both areas.

### **General Fund Budgetary Highlights**

During the fiscal year, the General Fund's original budget was amended from an original budget expenditure total of \$11,972,204 to a final budget of \$13,495,665, an increase of \$1,523,461. These increases can be briefly summarized as follows:

- \$271,592 in miscellaneous increases in general government activities.
- \$323,164 in increases allocated to Police and Ambulance and other Public Safety divisions.
- \$233,640 increase allocated to Road Projects.
- \$200,000 increase allocated to Community Development.
- \$420,065 increases allocated to Parks & Recreation.
- \$75,000 increase allocated to building maintenance

Of these increases, \$710,000 was funded by additional tax collections from sales, property and franchise taxes. \$250,000 increases in building permit fee collections. \$140,000 increases in grants. \$100,000 increases in court fines, etc. \$300,000 increases in Recreation and Ambulance fees. And \$23,461 in miscellaneous revenue increases.

### Capital Assets and Debt Administration

**Capital Assets.** The City of Pleasant Grove's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$89,965,896 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, construction in progress, and water rights. The total increase in the City's investment in fixed assets for the current year was 8.67% (6.13% increase in governmental activities and a 13.82% for business-type activities).

Major capital asset events during the current fiscal year include the following:

- Secondary Water Storage Tank - \$1,230,400.
- New roads, curb, gutter and sidewalk - \$2,414,100.
- Storm Drain additions - \$867,109.
- Water line extensions and other improvements - \$2,446,300.
- Purchase of Park property - \$572,900.
- Park development - \$364,900.
- Sewer collection extensions - \$930,100

#### City of Pleasant Grove's Capital Assets

	Governmental Activities		Business-type Activities	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$39,489,640	\$38,990,135	\$639,396	\$543,532
Buildings	2,673,485	2,692,398		
Improvements & Infrastructure	12,629,790	10,076,944	28,448,059	24,906,396
Equipment	1,478,959	1,262,605	281,889	336,208
Infrastructure				
Construction in Progress			2,613,375	1,383,002
Water Rights & Stock			1,711,303	2,599,616
Total net assets	<u>\$56,271,874</u>	<u>\$53,022,082</u>	<u>\$33,694,022</u>	<u>\$29,768,754</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

**Long-term debt.** At the end of the current year, the City had total bonded debt outstanding of \$14,200,003. Of this amount \$313,000 comprises debt backed by the full faith and credit of the government and \$13,847,736 is debt that is secured solely by specific revenue sources (i.e., revenue bonds).

**City of Pleasant Grove's Outstanding Debt  
General Obligation and Revenue Bonds**

	Governmental Activities		Business-type Activities	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$313,000	\$614,000	\$0	\$0
Capital Lease	35,003	76,557	0	0
Revenue Bonds	7,757,500	8,633,000	6,094,500	5,068,000
Total Bonds	<u>\$8,105,503</u>	<u>\$9,323,557</u>	<u>\$6,094,500</u>	<u>\$5,068,000</u>

- The City's total outstanding debt decreased by \$191,554 during the current fiscal year.

The City of Pleasant Grove most recent bond issue had ratings of "AA" from Standard & Poor's and "AA-" from Fitch.

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value. The current limitations for the City are \$42,260,960, which is significantly in excess of the City's outstanding general obligation debt. In addition, state statutes allows for an additional 4% to be used for water, sewer, or other revenue bond projects thus resulting in a debt limit of 8% of total taxable value. Total limitation is \$84,521,920, which again significantly exceeds the outstanding debt.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Utah County (of which Pleasant Grove is the fourth largest city) was 2.8%. This compares with a state unemployment rate of 3.0% and a national rate of 4.6%. This compares with previous year's rates of 3.9%, 4.7%, and 5.0% respectively.
- The General Fund budget for the fiscal year-ending June 30, 2007 reflects an increase of 11.81% over the fiscal year ending, June 30, 2006.
- Economic trends in the region compare favorably to national indices.

**Request For Information**

This financial report is designed to provide a general overview of the City of Pleasant Grove's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Pleasant Grove City, Finance Director, 70 South 100 East, Pleasant Grove, UT 84062.

## **BASIC FINANCIAL STATEMENTS**

**PLEASANT GROVE CITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,593,637	\$ 6,033,621	\$ 12,627,258
Cash - Restricted	3,059,634	907,923	3,967,557
Receivables - net	4,252,201	738,339	4,990,540
Inventories		21,268	21,268
Prepaid expenses	23,671		23,671
Deferred bond financing cost - net	196,545	158,212	354,757
Capital assets (net of accumulated depreciation):			
Land	39,489,640	639,396	40,129,036
Buildings	2,673,485		2,673,485
Improvements and Infrastructure	12,629,790	28,448,059	41,077,849
Equipment	1,478,959	281,889	1,760,848
Construction in Progress		2,613,375	2,613,375
Water Rights and Stock		1,711,303	1,711,303
Total assets	<u>70,397,562</u>	<u>41,553,385</u>	<u>111,950,947</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	4,118,905	346,780	4,465,685
Bond interest payable	81,853	50,860	132,713
Deferred revenue	1,975,642		1,975,642
Noncurrent liabilities:			
Due within one year	1,262,503	418,500	1,681,003
Due in more than one year	7,043,594	5,676,000	12,719,594
Total liabilities	<u>14,482,497</u>	<u>6,492,140</u>	<u>20,974,637</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	48,367,648	28,264,990	76,632,638
Restricted for Roads and Impact Fees	1,326,269		1,326,269
Restricted for E-911 and Library	564,061		564,061
Unrestricted	<u>5,657,087</u>	<u>6,796,255</u>	<u>12,453,342</u>
Total net assets	<u>\$ 55,915,065</u>	<u>\$ 35,061,245</u>	<u>\$ 90,976,310</u>

*See accompanying notes.*



# PLEASANT GROVE CITY

## Statement of Activities

For the Year Ended June 30, 2006

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating		Governmental Activities	Primary Government	
		Charges for Services	Grants and Contributions		Business-type Activities	Total
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 3,960,503	\$ 3,233,532	\$ 23,725	\$ (703,246)	\$ -	\$ (703,246)
Public safety	3,791,574	2,143,382	261,532	(1,255,680)		(1,255,680)
Highways and public works	2,288,881	51,697	874,712	1,526,193		1,526,193
Parks and recreation	2,463,755	903,808	74,924	(1,006,172)		(1,006,172)
Interest on long-term debt	516,618			(516,618)		(516,618)
Total governmental activities	13,021,331	6,332,419	1,234,893	(1,955,523)		(1,955,523)
<b>Business-type activities:</b>						
Water Utility	2,004,287	2,255,061		2,554,363	2,805,137	2,805,137
Sewer Utility	2,368,775	2,026,020		1,112,139	769,384	769,384
Storm Drain Utility	384,612	291,358		1,024,457	931,203	931,203
Total business-type activities	4,757,674	4,572,439	0	4,690,959	4,505,724	4,505,724
Total primary government	\$17,779,005	\$10,904,858	\$ 1,234,893	\$ (1,955,523)	\$ 4,505,724	\$ 2,550,201
<b>General revenues:</b>						
Property taxes				2,560,292		2,560,292
General sales and use tax				3,107,578		3,107,578
Franchise tax				1,361,604		1,361,604
Unrestricted investment earnings				307,336	258,697	566,033
Other Revenues				88,130		88,130
Sale of assets				162,419	280,889	443,308
Total general revenues				7,587,359	539,586	8,126,945
Change in net assets				5,631,836	5,045,310	10,677,146
Net assets - beginning				50,283,229	30,361,849	80,645,078
Correction of a prior period					(345,914)	(345,914)
Beginning Net Assets - restated					30,015,935	80,299,164
Net assets - ending				\$55,915,065	\$35,061,245	\$90,976,310

See accompanying notes.

# PLEASANT GROVE CITY

## Balance Sheet

### Governmental Funds

June 30, 2006

	General Fund	Special Revenue Fund Redevelopment Agency	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 789,974	\$ 152,206	\$ 5,224,928	\$ 426,529	\$ 6,593,637
Cash - Restricted	2,873,973		185,661		3,059,634
Receivables (net):					
Property tax	1,957,639			125,811	2,083,450
Sales tax	629,838				629,838
Other	561,042				561,042
Intergovernmental	907,128				907,128
Special Assessment Receivable	70,743				70,743
Prepaid expense	23,671				23,671
Notes receivable - interfund	1,438,482			285,458	1,723,940
Total assets	<u>\$ 9,252,490</u>	<u>\$ 152,206</u>	<u>\$ 5,410,589</u>	<u>\$ 837,798</u>	<u>\$ 15,653,083</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable & accrued liabilities	\$ 4,118,905	\$ -			\$ 4,118,905
Notes payable - interfund		1,723,940			1,723,940
Deferred revenue	1,928,642			125,811	2,054,453
Total liabilities	<u>6,047,547</u>	<u>1,723,940</u>	<u>0</u>	<u>125,811</u>	<u>7,897,298</u>
<b>Fund Balances:</b>					
Restricted for Roads and Impact Fees	231,713		1,094,556		1,326,269
Restricted for E-911	350,086				350,086
Restricted for Library	213,975				213,975
Reserved for Interfund Receivable	1,438,482				1,438,482
Reserved for Other Activities	6,536				6,536
Unreserved, reported in:					
General Fund	964,151				964,151
Special Revenue Funds		(1,571,734)		492,575	(1,079,159)
Capital Project Fund			4,316,033		4,316,033
Debt Service Fund				219,412	219,412
Total fund balances	<u>3,204,943</u>	<u>(1,571,734)</u>	<u>5,410,589</u>	<u>711,987</u>	<u>7,755,785</u>
Total liabilities and fund balances	<u>\$ 9,252,490</u>	<u>\$ 152,206</u>	<u>\$ 5,410,589</u>	<u>\$ 837,798</u>	<u>\$ 15,653,083</u>

See accompanying notes.

**PLEASANT GROVE CITY**

**Balance Sheet Reconciliation to**

**Statement of Net Assets**

**June 30, 2006**

Total fund balances - governmental fund types:	\$ 7,755,785
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	56,271,874
Property taxes levied in prior years but not yet received are reported as deferred revenue in the governmental funds, but are recorded as revenues in the prior year net assets in the statement of activities.	78,811
Governmental funds report the effects of bond issuance costs, whereas these amounts are deferred and shown as net amortization in the statement of net assets.	196,545
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(8,187,356)
Compensated absences are not due and payable in the current period and are not reported as fund liabilities in the funds.	(200,594)
Net assets of government activities	<u>\$ 55,915,065</u>

*See accompanying notes.*

# PLEASANT GROVE CITY

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2006

	General Fund	Special Revenue Redevelopment Agency	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 6,642,663	\$ 201,064			\$ 6,843,727
Licenses and permits	677,203			160,806	838,009
Intergovernmental	1,251,374				1,251,374
Charges for services	4,715,404				4,715,404
Impact fees			965,351		965,351
Fines and forfeitures	577,196				577,196
Miscellaneous revenue	553,792		115,325	103,377	772,494
Total revenues	14,417,632	201,064	1,080,676	264,183	15,963,555
<b>EXPENDITURES</b>					
Current:					
General government	3,415,331		347,662		3,762,993
Public safety	3,890,073				3,890,073
Highways and public works	2,137,497				2,137,497
Parks and recreation	2,436,175		1,001,600		3,437,775
Debt service:					
Principal retirement	476,554		178,500	563,000	1,218,054
Interest and fiscal charges	124,804	100,631	196,522	75,326	497,283
Total expenditures	12,480,434	100,631	1,724,284	638,326	14,943,675
Excess revenues over (under) expenditures	1,937,198	100,433	(643,608)	(374,143)	1,019,880
<b>Other financing sources (uses)</b>					
Refund from Ut. Dept. of Transportation			88,130		88,130
Sale of Capital Assets			250,969		250,969
Transfers in	294,900		2,700,000	100,725	3,095,625
Transfers out	(2,850,000)	(100,725)	(144,900)		(3,095,625)
Total other financing sources and uses	(2,555,100)	(100,725)	2,894,199	100,725	339,099
Net change in fund balance	(617,902)	(292)	2,250,591	(273,418)	1,358,979
Fund balances - beginning of year	3,822,845	(1,571,442)	3,159,998	985,405	6,396,806
Fund balances - end of year	\$ 3,204,943	\$ (1,571,734)	\$ 5,410,589	\$ 711,987	\$ 7,755,785

See accompanying notes.

**PLEASANT GROVE CITY**  
Statement of Changes  
Reconciliation to  
Statement of Activities  
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 1,358,979
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	924,219
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Contributions of capital assets not reported in the funds.	2,414,122
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In the statement of activities, only the <i>gain</i> on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	(88,550)
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The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,182,650
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(159,584)</u>
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Change in net assets of governmental activities	<u><u>\$ 5,631,836</u></u>
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*See accompanying notes.*

# PLEASANT GROVE CITY

## Statement of Net Assets

### Proprietary Funds

June 30, 2006

	Business-Type Activities - Enterprise			
	Water Utility	Sewer Utility	Storm Drain Utility	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 845,775	\$ 4,826,259	\$ 361,587	\$ 6,033,621
Accounts receivable - net	367,649	342,210	28,480	738,339
Inventories	21,268			21,268
Total current assets	1,234,692	5,168,469	390,067	6,793,228
Noncurrent assets:				
Restricted cash and cash equivalents	661,172	246,751		907,923
Land, equipment, buildings and improv.	22,253,522	11,037,678	4,640,411	37,931,611
Less: Accumulated depreciation	(5,958,143)	(2,289,736)	(314,388)	(8,562,267)
Construction in progress	2,613,375			2,613,375
Water Rights and Stock	1,711,303			1,711,303
Deferred bond financing costs - net	112,205	35,946	10,061	158,212
Total noncurrent assets	21,393,434	9,030,639	4,336,084	34,760,157
Total assets	\$ 22,628,126	\$ 14,199,108	\$ 4,726,151	\$ 41,553,385
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 366,093	\$ 8,719	\$ 1,384	\$ 376,196
Bonds and capital leases	316,800	85,800	15,900	418,500
Total current liabilities	682,893	94,519	17,284	794,696
Noncurrent liabilities:				
Bonds, capital leases and comp. absences	4,294,264	1,039,264	363,916	5,697,444
Total noncurrent liabilities	4,294,264	1,039,264	363,916	5,697,444
Total liabilities	4,977,157	1,133,783	381,200	6,492,140
Net Assets:				
Invested in cap assets, net of related debt	16,680,429	7,879,893	3,947,123	28,507,445
Unrestricted	970,540	5,185,432	397,828	6,553,800
Total net assets	\$ 17,650,969	\$ 13,065,325	\$ 4,344,951	\$ 35,061,245

See accompanying notes.

**PLEASANT GROVE CITY**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	Business-Type Activities - Enterprise			
	Water Utility	Sewer Utility	Storm Drain Utility	Total
<b>Operating revenues:</b>				
Charges for Services	\$ -	\$ -	\$ 291,358	\$ 291,358
Charges pledged as security for revenue bonds	2,140,315	2,026,020		4,166,335
Fees and Miscellaneous	114,746			114,746
Total operating revenues	<u>2,255,061</u>	<u>2,026,020</u>	<u>291,358</u>	<u>4,572,439</u>
<b>Operating expenses:</b>				
Salaries and wages	191,842	167,599	47,874	407,315
Employee benefits	83,362	63,311	21,984	168,657
Seminar and conventions	6,510	3,326	357	10,193
Office supplies	35,564	183		35,747
Administrative Services	374,489	339,875	49,104	763,468
Maintenance and repairs	152,684	17,091		169,775
Lease and Rents	4,800	18,200	4,800	27,800
Utilities	180,040	473		180,513
Telephone	7,677	1,094		8,771
Professional services	74,000	68,441	49,562	192,003
Insurance	61,123	62,462		123,585
Depreciation	486,735	174,548	107,835	769,118
Miscellaneous	72,843	35,201	82,780	190,824
Water Lease	68,203			68,203
Supplies	87,334	19,655	2,900	109,889
Charges for Treatment		1,344,199		1,344,199
Amortization of bond financing costs	5,796	4,012	610	10,418
Total operating expenses	<u>1,893,002</u>	<u>2,319,670</u>	<u>367,806</u>	<u>4,580,478</u>
Operating income	<u>362,059</u>	<u>(293,650)</u>	<u>(76,448)</u>	<u>(8,039)</u>
<b>Nonoperating revenues (expenses):</b>				
Interest revenue	42,589	205,386	10,722	258,697
Special Assessment Revenue		159,275		159,275
Grant Revenue	1,245,360			1,245,360
Sale of Assets	113,001	167,888		280,889
Impact Fees	478,000	543,171	270,910	1,292,081
Interest expense and fiscal charges	(111,285)	(49,105)	(16,806)	(177,196)
Total nonoperating revenues (expenses)	<u>1,767,665</u>	<u>1,026,615</u>	<u>264,826</u>	<u>3,059,106</u>
Net income (Loss) before contributions	2,129,724	732,965	188,378	3,051,067
Developers Contributions	831,003	409,693	753,547	1,994,243
Change in net assets	<u>2,960,727</u>	<u>1,142,658</u>	<u>941,925</u>	<u>5,045,310</u>
Total net assets - beginning	15,036,156	11,922,667	3,403,026	30,361,849
Correction of a prior period	(345,914)			(345,914)
Beginning net assets - restated	<u>14,690,242</u>	<u>11,922,667</u>	<u>3,403,026</u>	<u>30,015,935</u>
Total net assets - ending	<u>\$ 17,650,969</u>	<u>\$ 13,065,325</u>	<u>\$ 4,344,951</u>	<u>\$ 35,061,245</u>

See accompanying notes.

# PLEASANT GROVE CITY

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise			Total
	Water Utility	Sewer Utility	Storm Drain	
<b>Cash Flows From Operating Activities</b>				
Receipts from customers	\$ 2,138,895	\$ 2,018,486	\$ 293,152	\$ 4,450,533
Payments to suppliers	(347,700)	(1,575,012)	(140,477)	(2,063,189)
Payments to general fund for services	(374,489)	(339,875)	(49,104)	(763,468)
Payments to employees	(456,476)	(223,962)	(74,082)	(754,520)
Net cash provided (used) by operating activities	960,230	(120,363)	29,489	869,356
<b>Cash Flows From Noncapital Financing Activities</b>				
Due to (from) other funds	(318,840)	318,840	-	-
<b>Cash Flows From Capital and Related Financing Activities</b>				
Impact fees	478,000	543,171	270,910	1,292,081
Special assessment fees		15,928		15,928
Proceeds from sale of assets	655,400	173,760		829,160
Grant revenue for capital activities	1,245,360			1,245,360
Purchases of capital assets	(2,953,905)	(526,861)	(113,562)	(3,594,328)
Proceeds from new debt	1,353,000			1,353,000
Bond financing costs	(16,235)			(16,235)
Principal paid on debt	(228,600)	(82,600)	(15,300)	(326,500)
Interest paid on capital debt	(117,276)	(48,161)	(16,767)	(182,204)
Net cash provided (used) by capital and related financing activities	415,744	75,237	125,281	616,262
<b>Cash Flows From Investing Activities</b>				
Interest and dividends received	42,589	205,386	10,722	258,697
Net cash provided (used) by investing activities	42,589	205,386	10,722	258,697
<b>Net increase (decrease) in cash and cash equivalents</b>	1,099,723	479,100	165,492	1,744,315
<b>Cash and cash equivalents - beginning</b>	407,224	4,593,910	196,095	5,197,229
<b>Cash and cash equivalents - end</b>	<u>\$ 1,506,947</u>	<u>\$ 5,073,010</u>	<u>\$ 361,587</u>	<u>\$ 6,941,544</u>

See accompanying notes.



**PLEASANT GROVE CITY**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business-Type Activities - Enterprise</b>			<b>Total</b>
	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Storm Drain</b>	
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income	\$ 362,059	\$ (293,650)	\$ (76,448)	\$ (8,039)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	486,735	174,548	107,835	769,118
Amortization expense	5,796	4,012	610	10,418
(Increase) decrease in receivables	(116,166)	(7,534)	1,794	(121,906)
Increase (decrease) in accounts payable	221,806	2,261	(4,302)	219,765
Total adjustments	598,171	173,287	105,937	877,395
Net cash provided (used) by operating activities	\$ 960,230	\$ (120,363)	\$ 29,489	\$ 869,356

**Supplementary information:**

Non-cash items from capital and related financing activities include contributions by developers to the water system of \$831,003, to the sewer system of \$409,693, and to the storm drain system of \$753,547.

*See accompanying notes.*

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Pleasant Grove City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. Reporting Entity**

Pleasant Grove City Corporation was incorporated under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. They are assisted by a Finance Director who is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, and accounts receivable.

The City provides the following services as mandated by law: Public Safety, Judicial Services, Highways and Streets, Sanitation, Parks, Cemetery, Water, Sewer, Storm Drain, Public Improvements, Planning and Zoning, and General Administrative Services

The City owns one-third of Tri-City Golf Course. The accounts of the golf course are excluded from the accompanying financial statements because the entity is autonomous and has a self-elected board of directors responsible for its operations and the hiring of its management personnel. The golf course was established in 1973 by American Fork City, Pleasant Grove City, and Lehi City.

**Blended Component Units.**

The Municipal Building Authority was created by the City during fiscal year 1995 and is governed by the City's Mayor and Council. The authority uses the proceeds of its tax-exempt bonds to finance the construction or acquisition of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a blended component unit.

The Redevelopment Agency is governed by a separate governing board, who are the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 – SUMMARY (Continued)**

The Municipal Building Authority and the Redevelopment Agency are considered blended component units since the governing board in each case is the same governing board of the City.

The Municipal Building Authority and the Redevelopment Agency are presented as special revenue funds in the financial statements

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds (if any), even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 – SUMMARY (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Redevelopment Agency Special Revenue Fund* accounts for the activities of the agency, a blended component unit of the city. The agency is an entity established to further public purpose in the redevelopment of particular city areas.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary fund).

The government reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the City’s water operations.

The *Sewer Fund* accounts for the activities of the City’s sewer operations.

The *Storm Drain Fund* accounts for the activities of the City’s storm drain operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 – SUMMARY (*Continued*)**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

Additionally, the government reports the following fund types:

The *Municipal Building Authority* special revenue fund accounts for the activities of the municipal building authority.

The *Debt Service Fund* accounts for accumulation of financial resources for the payment of principal and interest on the City's general obligation debt.

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of amounts deposited with Utah Public Treasurers' Investment Fund, treasury bills of the U.S. Government, and money market funds. Investments are stated at fair value, which approximates cost.

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to other funds" or "due from other funds."

**3. Inventories and prepaid items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 – SUMMARY (*Continued*)**

**4. Restricted Assets**

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services, and also cash held for construction performance bonds.

Restricted resources rather than unrestricted resources are used first to fund related appropriations.

**5. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25-40
Improvements other than buildings	20-25
Infrastructure	20
Machinery and equipment	5-10

**6. Compensated Absences**

City employees accrue earned vacation throughout the year. Unpaid vacation over 120 hours expires at the end of the calendar year. All vacation pay is accrued when incurred. A liability for these amounts is reported in the financial statements.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 – SUMMARY (Continued)**

**7. Taxes**

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Taxes are levied on all business personal property on January 1<sup>st</sup> and real estate and improvement taxes are levied on January 1<sup>st</sup> and are payable by November 30<sup>th</sup>. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22<sup>nd</sup> each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

**8. Long-term obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of any applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

**9. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 – SUMMARY (Continued)**

**10. Use of Estimates**

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

**Capital related items:**

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$66,080,468
Accumulated depreciation	<u>( 9,720,044)</u>
Net adjustment to increase <i>fund balance -total governmental funds</i> to arrive at <i>net assets – governmental activities</i> )	<u>\$56,360,424</u>

**Long-term debt transactions:**

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds and capital leases payable	(\$8,105,503)
Bond interest payable	<u>( 81,853)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>(\$8,187,356)</u>



**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 2 – RECONCILIATION (Continued)**

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$2,165,253
Depreciation expense	<u>( 1,241,034)</u>
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 924,219</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Debt issued or retired:	
Principal paid on bonds and capital leases	\$1,218,054
Issuance cost amortization	<u>( 35,404)</u>
Total debt incurred	<u>\$1,182,650</u>

Some expenses and revenues reported in the statement of activities do not require the use of current financial resources and are not reported in governmental funds.

Compensated absences	(\$ 200,594)
Accrued Interest	16,069
Delinquent property taxes	<u>24,941</u>
Total	<u>(\$ 159,584)</u>

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22<sup>nd</sup>, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1<sup>st</sup>.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

**A. Deposits**

Deposits – Custodial Credit Risk. Custodial risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the State Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2006, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2006</u>
Checking & Savings Accounts	Insured	\$ 100,000
Checking & Savings Accounts	Uninsured and Uncollateralized	2,323,499
		<u>\$2,423,499</u>

**B. Investments**

The City's investments are managed through participation in the State Public Treasurers' Investment Fund. The City also has funds in bond accounts at US Bank invested in money market mutual funds and at Wells Fargo invested in the Public Treasurer's Investment Fund. As of June 30, 2006 The City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	57 days average	\$11,570,362
First American Treasury Obligation Fund	35-40 days average	1,835,412
Utah Public Treasurer's Investment Fund – Wells Fargo	57 days average	759,120
		<u>\$14,164,894</u>

Investments–Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 4 - CASH (Continued)**

Investments-Credit Risk. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers Investment Fund (PTIF), certificates of Deposits, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices.

At June 30 2006, the City had the following quality ratings:

Investments	Fair Value	AAA	Quality Ratings		
			AA	A	Unrated
Utah Public Treasurer's Investment Fund	\$ 12,329,482	\$ -	\$ -	\$ -	\$12,329,482
First American Treasury Obligations Fund	1,835,412	1,835,412			
Total Investment	<u>\$14,164,894</u>	<u>\$ 1,835,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,329,482</u>

Investments-Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counter-party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk.

**NOTE 5 - RECEIVABLES**

Receivables as of year end for the government's individual major fund and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTES 5 – RECEIVABLES (Continued)**

Receivables:	General	Water	Sewer	Storm Drain	Nonmajor Governmental	Total
Accounts	\$76,354	\$372,649	\$344,710	\$28,780	\$0	\$822,493
Property Tax	1,957,639				125,811	2,083,450
Sales Tax	629,838					629,838
Other	486,188					486,188
Intergovernmental	907,128					907,128
Special Assessment	70,743					70,743
Less: Allowance for						
Uncollectible accounts	(1,500)	(5,000)	( 2,500)	(300)		(9,300)
Total	<u>\$4,126,390</u>	<u>\$367,649</u>	<u>\$342,210</u>	<u>\$28,480</u>	<u>\$125,811</u>	<u>\$ 4,990,540</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	\$1,857,899	
Property taxes receivable (Debt Service Fund)	125,811	
Special assessment receivable (General Fund)	70,743	
Total deferred/unearned revenue for Governmental Funds	<u>\$2,054,453</u>	<u>\$ 0</u>

**NOTE 6 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS**

The composition of interfund balances as of year end is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Redevelopment Agency	\$1,438,482
Municipal Building Authority	Redevelopment Agency	285,458
Total		<u>\$1,723,940</u>

The interfund balances between the MBA and RDA and the General Fund and RDA are not expected to be repaid within one year.

	<u>MBA</u>	<u>Transfer In</u> <u>General</u>	<u>Capital Projects</u>
Transfer Out:			
General		\$150,000	\$2,700,000
Capital Projects		144,900	
Redevelopment Agency	<u>\$100,725</u>		
Total Transfer Out	<u>\$100,725</u>	<u>\$294,900</u>	<u>\$2,700,000</u>

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

<b>Primary Government</b>	<b>Beginning</b>			<b>Ending</b>
<b>Governmental activities:</b>	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
Capital assets not being depreciated:				
Land	\$ 38,990,135	\$ 588,055	\$ 88,550	\$ 39,489,640
Total capital assets not being depreciated	38,990,135	588,055	88,550	39,489,640
Capital assets being depreciated:				
Buildings	5,102,399	132,364	-	5,234,763
Machinery and equipment	4,264,476	563,345	-	4,827,821
Improvement and infrastructure	13,144,083	3,295,611	-	16,439,694
Total capital assets being depreciated	22,510,958	3,991,320	-	26,502,278
Less accumulated depreciation for:				
Buildings	2,410,001	151,277	-	2,561,278
Machinery and equipment	3,001,870	346,992	-	3,348,862
Improvement and infrastructure	3,067,139	742,765	-	3,809,904
Total accumulated depreciation	8,479,010	1,241,034	-	9,720,044
Total capital assets, being depreciated, net	14,031,948	2,750,286	-	16,782,234
Governmental activities capital assets, net	\$ 53,022,083	\$ 3,338,341	\$ 88,550	\$ 56,271,874
<b>Business-type activities:</b>	<b>Beginning</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending</b>
	<b>Balance</b>			<b>Balance</b>
Capital assets not being depreciated:				
Construction in Progress	\$ 1,383,002	\$ 1,230,373	\$ -	\$ 2,613,375
Water Shares	2,599,616		888,313	1,711,303
Land	543,532	101,736	5,872	639,396
Total capital assets not being depreciated	4,526,150	1,332,109	894,185	4,964,074
Capital assets being depreciated:				
Buildings	65,497	-	-	65,497
Improvements	31,891,767	4,243,458	-	36,135,225
Machinery and equipment	1,078,491	13,002	-	1,091,493
Total capital assets being depreciated	33,035,755	4,256,460	-	37,292,215
Less accumulated depreciation for:				
Buildings	65,497	-	-	65,497
Improvements	6,969,341	717,825	-	7,687,166
Machinery and equipment	758,312	51,292	-	809,604
Total accumulated depreciation	7,793,150	769,117	-	8,562,267
Total capital assets, being depreciated, net	25,242,605	3,487,343	-	28,729,948
Business-type activities capital assets, net	\$ 29,768,755	\$ 4,819,452	\$ 894,185	\$ 33,694,022

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 7 – CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 157,878
Public safety	273,894
Highways and public improvements	761,289
Parks and recreation	47,973
Total depreciation expense - governmental activities	<u>\$ 1,241,034</u>

**Business-type activities:**

Water	\$ 486,735
Sewer	174,548
Storm Drain	107,834
Total depreciation expense - Business-Type Activities	<u>\$ 769,117</u>

Total depreciation expense \$ 2,752,916

*Construction Commitments* – As of June 30, 2006, the City was completing a new well and related water lines. As of year end, the project is about 90% complete. The City is expanding the secondary water system. This is expected to be completed in 2008 at a cost of \$17,000,000. The project will be financed by a Federal grant of \$5,000,000 and new bonds of \$12,000,000. As part of this project, the City is constructing a new tank which is about 60% complete at year end.

**NOTE 8 - CAPITAL LEASE COMMITMENTS**

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business Activities</u>
Asset:		
Machinery and Equipment	\$1,227,512	\$110,927
Less: Accumulated Amortization	( 1,108,512)	(110,927)
Total	<u>\$ 119,000</u>	<u>\$ 0</u>

Amortization of capital assets purchased under capital leases is included in depreciation.

The City has acquired fixed assets financed with capital leases. The related lease agreements contain fiscal funding clauses which allow cancellation of the leases if future funding of the leases are not budgeted by the City Council.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - CAPITAL LEASE COMMITMENTS (Continued)**

The following is a schedule of yearly future lease payments under governmental fund-type capital leases together with the present value of net minimum lease payments as of June 30, 2006:

<u>E-911 Equipment Lease</u>			
Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 35,003</u>	<u>\$ 775</u>	<u>\$ 35,778</u>

The present value of future minimum capital lease payments under all capital leases as of June 30, 2006 are:

2006	<u>\$35,003</u>	<u>\$ 775</u>	<u>\$35,778</u>
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**NOTE 9 - LONG-TERM DEBT**

Changes in long-term debt:

The following is a summary of bond, capital lease and other debt transactions for the City for the year ended June 30, 2006.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Compensated Absences	\$ 198,945	\$ 1,649	\$ -	\$ 200,594	\$ -
C Road Revenue Bonds	2,910,000	-	(435,000)	2,475,000	455,000
Capital Lease	76,557	-	(41,554)	35,003	35,003
Lease Revenue Bonds	1,124,000	-	(262,000)	862,000	274,000
General Obligation Bonds	614,000	-	(301,000)	313,000	313,000
Sales Tax Revenues	4,599,000	-	(178,500)	4,420,500	185,500
Total	<u>\$ 9,522,502</u>	<u>\$ 1,649</u>	<u>\$(1,218,054)</u>	<u>\$ 8,306,097</u>	<u>\$ 1,262,503</u>
<b>Business-Type Activities</b>					
Compensated Absences	\$ 20,515	\$ 929	\$ -	\$ 21,444	\$ -
Storm Drain Revenue Bonds	394,200	-	(15,300)	378,900	15,900
Water Revenue Bonds	3,476,400	1,353,000	(228,600)	4,600,800	316,800
Sewer Revenue Bonds	1,197,400	-	(82,600)	1,114,800	85,800
Total	<u>\$ 5,088,515</u>	<u>\$ 1,353,929</u>	<u>\$ (326,500)</u>	<u>\$ 6,115,944</u>	<u>\$ 418,500</u>



**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 9 – LONG-TERM DEBT (Continued)**

Bonds payable at June 30, 2006, are comprised of the following individual issues:

**General Obligation Bonds:**

\$1,065,000 2006 Parks and Recreation General Obligation Refunding Bonds due in annual installments of \$19,000 to \$313,000 through March 1, 2007; interest at 1.950% to 3.35% payable semiannually.	\$ 313,000
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**Lease Revenue Bonds:**

\$2,750,000 1999 Lease Revenue Bonds due in annual installments of \$227,000 to \$327,000 through February 28, 2009; interest at 4.80% payable semi-annually	862,000
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**Sewer Revenue Bonds:**

\$553,000 Sewer Revenue Bonds Series 2001 due in annual installments of \$46,000 to \$65,000 through February, 2012; Interest is 4% payable annually	357,000
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**Water Revenue Bonds:**

\$1,010,000 Water Revenue Bonds Series 1999 due in annual installments of \$84,000 to \$124,000 through December 1, 2009; interest at 5.00% payable semiannually	326,000
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\$150,000 Water Revenue Bond Series 2002A, 0% interest payable in annual installments of \$7,000 to \$18,000 until December 2018	122,000
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\$1,700,000 Water Revenue Bond Series 2002B, payable in annual installments of \$63,000 to \$111,000 until December 2022: 3.04% interest payable semiannually	1,505,000
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\$1,520,000 Water Revenue Bonds Series 2004, 1.700% interest payable in annual installments of \$64,000 to \$75,000 until December 1, 2025. As of year end, only \$1,309,000 had been issued	1,309,000
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\$449,000 Water Revenue Bond Series 1994 due in annual installments of \$21,000 to \$24,000 through January 1, 2016; interest at .57% payable annually	231,000
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\$352,000 Water Revenue Bonds Series 2006 due in annual installments of \$15,000 to \$21,000 through December 1, 2026; interest at 1.70% annually	350,000
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**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**C Road Revenue Bonds:**

\$4,500,000 2001 "C" Road Bonds due in annual installments of \$557,905 to \$561,505 through January 15, 2011; interest at 4.0% to 4.35% payable semi-annually 2,475,000

**Sales Tax Revenue Bonds:**

\$7,070,000 Sales Tax Revenue Bonds Series 2002: principal payments in annual installments of \$250,000 to \$525,000 through June, 2023; interest from 3.0% to 5.25% payable semi-annually; this bond is allocated to different funds as follows: Capital Projects 70%, Water 12%, Sewer 12%, and Storm Drain 6% 6,315,000

The annual requirements to amortize bonds outstanding as of June 30, 2006, including interest, are as follows:

**Lease Revenue Bonds - MBA**

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 274,000	\$ 41,376	\$ 315,376
2008	287,000	28,224	315,224
2009	301,000	14,448	315,448
	<u>\$ 862,000</u>	<u>\$ 84,048</u>	<u>\$ 946,048</u>

**B&C Road Revenue Bonds**

2007	\$ 455,000	\$105,288	\$ 560,288
2008	475,000	86,405	561,405
2009	495,000	66,455	561,455
2010	515,000	45,417	560,417
2011	535,000	23,272	558,272
	<u>\$2,475,000</u>	<u>\$326,837</u>	<u>\$2,801,837</u>

**Water Revenue Bonds – 1995**

2007	\$ 23,000	\$ 1,317	\$ 24,317
2008	23,000	1,186	24,186
2009	23,000	1,054	24,054
2010	23,000	923	23,923
2011	23,000	792	23,792
2012	23,000	661	23,661
2013	23,000	530	23,530
2014	23,000	399	23,399
2015	23,000	268	23,268
2016	24,000	137	24,137
	<u>\$231,000</u>	<u>\$ 7,267</u>	<u>\$238,267</u>

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

Water Revenue Bonds – 2002A

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,000	\$ 0	\$ 7,000
2008	7,000	0	7,000
2009	9,000	0	9,000
2010	9,000	0	9,000
2011	9,000	0	9,000
2012	9,000	0	9,000
2013	9,000	0	9,000
2014	9,000	0	9,000
2015	9,000	0	9,000
2016	9,000	0	9,000
2017	9,000	0	9,000
2018	9,000	0	9,000
2019	18,000	0	18,000
	<u>\$122,000</u>	<u>\$ 0</u>	<u>\$ 122,000</u>

Water Revenue Bonds – 1999

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$107,000	\$13,625	\$ 120,625
2008	113,000	8,125	121,125
2009	106,000	2,650	108,650
	<u>\$326,000</u>	<u>\$ 24,400</u>	<u>\$350,400</u>

Water Revenue Bonds – 2002B

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 69,000	\$ 45,752	\$ 114,752
2008	71,000	43,654	114,654
2009	73,000	41,496	114,496
2010	75,000	39,277	114,277
2011	78,000	36,997	114,997
2012	80,000	34,626	114,626
2013	83,000	32,194	115,194
2014	85,000	29,670	114,670
2015	88,000	27,086	115,086
2016	90,000	24,411	114,411

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

*(Water Revenue Bonds – 2002B Continued)*

2017	93,000	21,675	114,675
2018	96,000	18,848	114,848
2019	99,000	15,930	114,930
2020	102,000	12,920	114,920
2021	104,000	9,819	113,819
2022	108,000	6,658	114,658
2023	<u>111,000</u>	<u>3,374</u>	<u>114,374</u>
	<u>\$1,505,000</u>	<u>\$444,387</u>	<u>\$1,949,387</u>

Water Revenue Bonds – 2004

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 42,811	\$ 10,510	\$53,321
2008	57,017	21,525	78,542
2009	57,987	20,556	78,543
2010	58,972	19,570	78,542
2011	59,975	18,568	78,543
2012	60,994	17,548	78,542
2013	62,031	16,511	78,542
2014	63,086	15,457	78,543
2015	64,158	14,384	78,542
2016	65,249	13,293	78,542
2017	66,358	12,184	78,542
2018	67,486	11,056	78,542
2019	68,634	9,909	78,543
2020	69,800	8,742	78,542
2021	70,987	7,555	78,542
2022	72,194	6,349	78,543
2023	73,421	5,121	78,542
2024	74,669	3,873	78,542
2025	75,939	2,604	78,543
2026	<u>77,232</u>	<u>1,311</u>	<u>78,543</u>
	<u>\$1,309,000</u>	<u>\$236,626</u>	<u>\$1,545,626</u>

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

Water Revenue Bonds – 2006

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 3,339	\$ 3,339
2008	15,000	5,950	20,950
2009	15,000	5,695	20,695
2010	15,000	5,440	20,440
2011	16,000	5,185	21,185
2012	16,000	4,913	20,913
2013	16,000	4,641	20,641
2014	16,000	4,369	20,369
2015	17,000	4,097	21,097
2016	17,000	3,808	20,808
2017	17,000	3,519	20,519
2018	18,000	3,230	21,230
2019	18,000	2,924	20,924
2020	18,000	2,618	20,618
2021	18,000	2,312	20,312
2022	19,000	2,006	21,006
2023	19,000	1,683	20,683
2024	19,000	1,360	20,360
2025	20,000	1,037	21,037
2026	20,000	697	20,697
2027	21,000	357	21,357
	<u>\$ 350,000</u>	<u>\$69,180</u>	<u>\$ 419,180</u>

Sewer Revenue Bonds – 2001

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 54,000	\$ 14,280	\$ 68,280
2008	56,000	12,120	68,120
2009	58,000	9,880	67,880
2010	61,000	7,560	68,560
2011	63,000	5,120	68,120
2012	65,000	2,600	67,600
	<u>\$357,000</u>	<u>\$ 51,560</u>	<u>\$ 408,560</u>

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

General Obligation Parks and Recreation Refunding Bonds Series 2003

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 313,000</u>	<u>\$10,486</u>	<u>\$ 323,486</u>

Sales Tax Revenue Bonds Series 2002

2007	\$ 265,000	\$ 272,945	\$ 537,945
2008	275,000	264,501	539,501
2009	280,000	255,483	535,483
2010	290,000	245,422	535,422
2011	305,000	234,194	539,194
2012	315,000	222,175	537,175
2013	330,000	209,275	539,275
2014	340,000	195,662	535,662
2015	355,000	181,106	536,106
2016	375,000	165,406	540,406
2017	390,000	148,573	538,573
2018	410,000	129,133	539,133
2019	430,000	107,082	537,082
2020	455,000	84,648	539,648
2021	475,000	61,862	536,862
2022	500,000	37,975	537,975
2023	<u>525,000</u>	<u>12,863</u>	<u>537,863</u>
	<u>\$6,315,000</u>	<u>\$2,828,305</u>	<u>\$ 9,143,305</u>

**Subsequent 5-Year Debt Disclosure**

The combined principal amounts of general Long-term Bonds and Enterprise Fund Bonds payable for the next 5 years and to maturity are as follows:

2007	\$1,609,811	\$518,918	\$2,128,729
2008	1,379,017	471,690	1,850,707
2009	1,417,987	417,717	1,835,704
2010	1,046,972	363,609	1,410,581
2011	1,088,975	324,128	1,413,103
2012	568,994	282,523	851,517
2013	523,031	263,151	786,182
2014	536,086	245,557	781,643
2015	556,158	226,941	783,099
2016	580,249	207,055	787,304

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**Subsequent 5-Year Debt Disclosure (Continued)**

2017	575,358	185,951	761,309
2018	600,486	162,267	762,753
2019	633,634	136,151	769,785
2020	644,800	108,928	753,728
2021	667,987	81,548	749,535
2022	699,194	52,988	752,182
2023	728,421	23,041	751,462
2024	93,669	5,233	98,902
2025	95,939	3,641	99,580
2026	97,232	2,008	99,240
2027	21,000	357	21,357
	<u>\$14,165,000</u>	<u>\$4,083,402</u>	<u>\$18,248,402</u>

**NOTE 10 - RETIREMENT PLAN**

**Local Governmental - Cost Sharing**

*Plan Description.* Pleasant Grove City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and Public Safety Retirement System (Public Safety System) and Firefighters System for employers with Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

*Funding Policy.* Pleasant Grove City is required to contribute a percent of covered salary to the respective systems, 11.090% to the Noncontributory, and 19.340% to the Public Safety Noncontributory and 8.610% to the Firefighters System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 10 - RETIREMENT PLAN (Continued)**

Pleasant Grove City contributions to the Noncontributory Retirement System for June 30, 2006, 2005 and 2004 were \$243,680, \$222,530 and \$174,551 respectively; for the Public Safety Retirement System the contributions for June 30, 2006, 2005 and 2004 were \$227,104, \$217,060 and \$188,033 respectively; and for the Firefighters System the contributions for June 30, 2006, 2005 and 2004 were \$12,491, \$13,293 and \$10,594 respectively. The contributions were equal to the required contributions for each year.

**401-K Plan**

Central Bank administers a 401-K plan invested with John Hancock Life Insurance Co. The City has elected to contribute a total of 18% for each employee's retirement. Most of this is contributed to the Utah State Retirement System. The rest is put into the 401-K Plan. The contribution for the year was \$355,723 to the 401-K Plan.

**NOTE 11 - CONTINGENCIES AND SUBSEQUENT EVENTS**

The City issued Water Revenue Bonds in the fall of 2006 for expansion of the secondary water system in the amount of \$12,000,000.

*Litigation* - The City is a defendant in certain legal actions and pending actions, or in process for miscellaneous claims. The ultimate liability that might result from the final resolution of the above matters is not presently determinable. City management is of the opinion that the final outcome of the cases will not have an adverse material affect on the City's financial statements.

**NOTE 12 - RESTRICTED AND RESERVED FUND BALANCES**

Restricted

**Capital Projects Fund**

An amount is set aside for Impact Fees not yet expended	\$1,094,556
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**General Fund**

Unspent Portion of "C" Road Funds	231,713
Total Restricted	<u>\$1,326,269</u>

Reserved

**General Fund**

Funds reserved for Scholarship	\$ 6,536
Funds reserved for Emergency 911 operations	350,086
Funds reserved for Library Fund	213,975
Funds reserved for Long-term Interfund Receivable	<u>1,438,482</u>
Total Reserved	<u>\$ 2,009,079</u>



**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 13 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for some of these risks. Various policies are purchased through insurance agencies to cover life, health, workers compensation, and other employee related policies. The City also participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The plan covers liability, theft, damages and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. Settled claims resulting from these risks have not exceeded its coverage in any of the past three fiscal years.

**NOTE 14 - REDEVELOPMENT AGENCY**

The Pleasant Grove City Redevelopment Agency was established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2006, the following activity occurred in the City's Redevelopment Agency:

Tax increment collection from other taxing agencies for various project areas	\$ 201,064
Tax increment paid to other taxing agencies	0
Outstanding loans to finance RDA projects	1,723,940
Amounts expended for site improvements and preparation costs	0
Amounts expended for installation of public utilities and other public improvements	0
Amounts expended for administrative costs and interest paid	100,631

**NOTE 15 – OTHER DISCLOSURES**

Generally accepted accounting principles require disclosure, as part of the general purpose financial statements, of certain information concerning individual funds, including:

The Redevelopment Agency Fund had a deficit fund balance of	\$1,571,734
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**NOTE 16 – RESTRICTED CASH**

Restricted Cash represents bond proceeds and bond escrow funds which have been segregated for payment of outstanding bonds. Also included are funds held for construction bonds.

**PLEASANT GROVE CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 17 – CORRECTION OF A PRIOR PERIOD**

During the year end June 30, 2005, water rights in the amount of \$345,914 were incorrectly reported as being donated to Pleasant Grove City instead of Metropolitan Water District of Pleasant Grove.

**REQUIRED SUPPLEMENTAL INFORMATION**

# PLEASANT GROVE CITY

## General Fund

### Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variances with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 5,912,700	\$ 6,707,700	\$ 6,642,663	\$ (65,037)
Licenses and permits	417,000	682,000	677,203	(4,797)
Intergovernmental	907,017	1,285,517	1,251,374	(34,143)
Charges for services	4,410,344	4,863,739	4,715,404	(148,335)
Fines and forfeitures	547,750	630,000	577,196	(52,804)
Miscellaneous revenue	370,000	736,800	553,792	(183,008)
Total revenue	<u>12,564,811</u>	<u>14,905,756</u>	<u>14,417,632</u>	<u>(488,124)</u>
<b>EXPENDITURES</b>				
Current:				
General government	3,279,515	3,784,553	3,415,331	369,222
Public safety	3,875,631	4,198,795	3,890,073	308,722
Highways and public works	1,954,304	2,187,944	2,137,497	50,447
Parks and recreation	2,302,854	2,722,919	2,436,175	286,744
Debt service:				
Principal retirement	435,000	476,554	476,554	-
Interest and fiscal charges	124,900	124,900	124,804	96
Total expenditures	<u>11,972,204</u>	<u>13,495,665</u>	<u>12,480,434</u>	<u>1,015,231</u>
Excess revenues over (under) expenditures	<u>592,607</u>	<u>1,410,091</u>	<u>1,937,198</u>	<u>527,107</u>
<b>Other financing sources (uses)</b>				
Transfers in	294,900	294,900	294,900	-
Transfers out	(837,942)	(2,850,000)	(2,850,000)	-
Total Other Financing Sources (Uses)	<u>(543,042)</u>	<u>(2,555,100)</u>	<u>(2,555,100)</u>	
Net change in fund balance	49,565	(1,145,009)	(617,902)	527,107
Fund balances - beginning of year	3,822,845	3,822,845	3,822,845	-
Fund balances - end of year	<u>\$ 3,872,410</u>	<u>\$ 2,677,836</u>	<u>\$ 3,204,943</u>	<u>\$ 527,107</u>

See accompanying notes.

**PLEASANT GROVE CITY**  
**Redevelopment Agency Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual Amounts	Variances with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$250,000	\$283,250	\$201,064	\$ (82,186)
Total Revenue	<u>250,000</u>	<u>283,250</u>	<u>201,064</u>	<u>(82,186)</u>
<b>EXPENDITURES</b>				
Interest	-	23,000	100,631	(77,631)
Total Expenditures	<u>0</u>	<u>23,000</u>	<u>100,631</u>	<u>(77,631)</u>
Excess (Deficiency) of Revenues Over Expenditures	250,000	260,250	100,433	(159,817)
<b>Other financing sources (uses)</b>				
Transfers Out	<u>(262,550)</u>	<u>(481,550)</u>	<u>(100,725)</u>	<u>380,825</u>
Net Change in Fund Balance	(12,550)	(221,300)	(292)	221,008
Fund Balance - July 1	<u>(1,571,442)</u>	<u>(1,571,442)</u>	<u>(1,571,442)</u>	-
Fund Balance - June 30	<u><u>\$ (1,583,992)</u></u>	<u><u>\$ (1,792,742)</u></u>	<u><u>\$ (1,571,734)</u></u>	<u><u>\$ 221,008</u></u>

*See accompanying notes.*

**SUPPLEMENTAL SCHEDULES**

**PLEASANT GROVE CITY**  
**SCHEDULE OF IMPACT FEES**  
**FOR YEAR ENDING JUNE 30, 2006**

	Recreation	Fire/EMS	Police	Streets	Storm Drain	Water	Sewer
<b>Received:</b>							
1998	\$ -	\$ -	\$ 2,703.34	\$ -	\$ -	\$ -	\$ -
1999		3,429.45	31,374.63				
2000		5,879.01	17,671.98				
2001		7,363.68	18,422.13				
2002		16,721.79	30,691.21				
2003		18,049.18	25,126.00				
2004		40,526.08	60,850.46				
2005		56,448.35	64,125.92				
2006	502,809.06	69,588.32	74,561.52	426,175.36	270,910.17	477,999.88	543,170.63
Balance 6/30/06	391,411.92	218,005.86	325,527.19	159,611.29	-	-	-

The following capital projects are planned to use the impact fees shown above:

Capital Project Planned	Cost	Start Date	Type
New Recreation Building	\$ 5,500,000	Spring 2007	Recreation
Public Safety Building	3,500,000	Fall 2008	Fire/Ems/Police
20th West	1,500,000	Fall 2006	Street

**PLEASANT GROVE CITY**  
**Combining Balance Sheet**  
**Non-major Governmental Funds**  
**June 30, 2006**

	Special Revenue Fund Municipal Building Authority	Debt Service	Total Non-Major Governmental Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 207,117	\$ 219,412	\$ 426,529
Interfund loans	285,458	-	285,458
Property tax receivable	-	125,811	125,811
Total assets	<u>\$ 492,575</u>	<u>\$ 345,223</u>	<u>\$ 837,798</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Deferred revenue	\$ -	\$ 125,811	\$ 125,811
Total liabilities	<u>-</u>	<u>125,811</u>	<u>125,811</u>
Fund balances:			
Unreserved fund balance	<u>492,575</u>	<u>219,412</u>	<u>711,987</u>
Total fund balances	<u>492,575</u>	<u>219,412</u>	<u>711,987</u>
Total liabilities and fund balances	<u>\$ 492,575</u>	<u>\$ 345,223</u>	<u>\$ 837,798</u>



# PLEASANT GROVE CITY

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

### Non-major Governmental Funds

For the Year Ended June 30, 2006

	Special Revenue		Total
	Municipal	Debt	Non-major
	Building	Service	Governmental
	Authority		Funds
REVENUES:			
Property taxes	\$ -	\$ 160,806	\$ 160,806
Miscellaneous	90,483	12,894	103,377
Total	90,483	173,700	264,183
EXPENDITURES:			
Debt Service:			
Principal retirement	262,000	301,000	563,000
Interest and fiscal charges	55,359	19,967	75,326
Total	317,359	320,967	638,326
Excess of revenues over (under) expenditures	(226,876)	(147,267)	(374,143)
Other financing sources (uses):			
Transfers in	100,725	-	100,725
Total other financing sources (uses)	100,725	-	100,725
Net change in fund balance	(126,151)	(147,267)	(273,418)
Fund balances - begin	618,726	366,679	985,405
Fund balances - end	\$ 492,575	\$ 219,412	\$ 711,987

**SINGLE AUDIT AND OTHER REPORTS**

**PLEASANT GROVE CITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant I.D. Number</u>	<u>Expenditures</u>
<b><u>Environmental Protection Agency</u></b>			
Passed Through Utah Division of Drinking Water			
Capitalization Grant for Drinking Water			
State Revolving Funds - New Proceeds - Loan	66.468	N/A	\$ 1,003,000
State Revolving Funds - Prior Year Loan Balance	66.468		
Total Environmental Protection Agency			<u>1,003,000</u>
<b><u>U.S. Department of Health &amp; Human Services</u></b>			
Passed Through Mountainland Association of Governments			
Low-Income Home Energy Assistance			
Special Programs for the Aging Title III Part C	93.044		236
Low-Income Home Energy Assistance			
Special Programs for the Aging Title III Part B	93.045		4,953
Total U.S. Department of Health & Human Services			<u>5,189</u>
<b><u>U.S. Department of Agriculture</u></b>			
Passed Through Mountainland Association of Governments			
School Lunch Program	10.550		<u>3,144</u>
<b><u>U.S. Department of Justice</u></b>			
Direct			
Public Safety Partnership	16.710		107,463
Bullet Proof Vest Partnership	16.607		3,897
Passed Through Utah Office of Crime Victim Reparations			
Crime Victim Assistance	16.575		15,445
Violence Against Women	16.588		13,550
Total U.S. Department of Justice			<u>140,355</u>
<b><u>U.S. Department of Homeland Security</u></b>			
State Domestic Preparedness Equipment Program	97.044		<u>101,800</u>
<b><u>U.S. Department of Interior</u></b>			
Passed Through Central Utah Water Conservancy District			
Water Project	15.xxx		<u>1,245,359</u>
<b><u>U.S. Department of Transportation</u></b>			
Passed Through State of Utah Dept. of Public Safety			
State and Community Highway Safety	20.600		<u>7,951</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 2,506,798</u></u>

*See accompanying notes to Schedule of Expenditures of Federal Awards.*

**PLEASANT GROVE CITY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of activities related to the Pleasant Grove City's expenditure of Federal Awards. The schedule has been prepared on the same basis of accounting as the general purpose financial statements. Most of the awards are reimbursement based. Therefore, as expenditures of Federal funds are made, revenue is recognized.

**NOTE B – ACCOUNTS RECEIVABLE**

The general purpose financial statements include accounts receivable from grant programs. The receivables reflect Federal awards that have been expended by year-end not yet reimbursed.

**NOTE C – FEDERAL LOANS**

In June 2005, Pleasant Grove issued Water Revenue Bonds for \$1,520,000 which were bought by the Utah Division of Drinking Water. The State's share of the funds was \$306,204, the Environmental Protection Agency's share was \$1,213,796. The proceeds are used for a city water project. At June 30, 2006, \$1,003,000 of federal funds have been drawn from this bond issue.

**PLEASANT GROVE CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Pleasant Grove City.
2. No reportable conditions were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Pleasant Grove City were disclosed during the audit.
4. No reportable conditions were identified during the audit of internal control over major Federal award programs.
5. The auditor's report on compliance for the major Federal award programs for Pleasant Grove City expresses an unqualified opinion.
6. No findings were identified relative to major federal award programs.
7. The programs tested as major programs included:
  - CFDA #66.468 Capitalization Grant for Drinking Water
  - CFDA #15.xxx Grant for Water Project
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pleasant Grove City was determined to be not a low-risk auditee because only one single audit was performed in the previous two years.

**B. CURRENT YEAR AUDIT FINDINGS**

None

**C. PRIOR YEAR AUDIT FINDINGS**

None

# GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Pleasant Grove City Corporation  
Pleasant Grove, UT

January 5, 2007

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Grove City, as of and for the year ended June 30, 2006, which collectively comprise the Pleasant Grove City's basic financial statements and have issued our report thereon dated January 5, 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

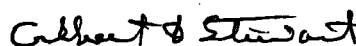
In planning and performing our audit, we considered Pleasant Grove City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pleasant Grove City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Pleasant Grove City, in a separate letter dated January 5, 2007.

This report is intended solely for the information and use of management, State Auditor, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART  
Certified Public Accountants

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Pleasant Grove City Corporation  
Pleasant Grove, UT

January 5, 2007

### Compliance

We have audited the compliance of Pleasant Grove City with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Pleasant Grove City's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Pleasant Grove City's management. Our responsibility is to express an opinion on Pleasant Grove City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Pleasant Grove City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pleasant Grove City's compliance with those requirements.

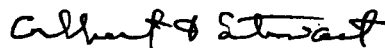
In our opinion, Pleasant Grove City complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

The management of Pleasant Grove City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Pleasant Grove City's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Utah State Auditor, State and Federal agencies and other pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



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## INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Pleasant Grove City Corporation  
Pleasant Grove, UT

January 5, 2007

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Grove City Corporation for the year ended June 30, 2006, and have issued our report thereon dated January 5, 2007. As part of our audit, we have audited Pleasant Grove City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)  
Liquor Funds (Utah State Tax Commission)

The City also received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of Pleasant Grove City Corporation's financial statements.)

Meals on Wheels  
Arts (Utah Arts Council)  
Library Service Development (State Library)  
Emergency 911 Training Grant  
Safe Sidewalk (Dept. of Transportation)  
Equipment for Justice Court (Dept. of Justice)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt  
Cash Management  
Purchasing Requirements

Justice Courts  
B & C Road Funds  
Special Districts

Budgetary Compliance  
Property Tax  
Liquor Law Enforcement

Other Compliance Requirements  
Department of Commerce - Building Permits  
Impact Fees  
Asset Forfeitures

The management of Pleasant Grove City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Pleasant Grove City Corporation complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2006.

This report is intended solely for the information of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART  
*Certified Public Accountants*

**PLEASANT GROVE CITY CORPORATION**  
**MANAGEMENT LETTER**

# GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS  
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ROBERT PHELPS, CPA

January 5, 2007

Honorable Mayor and City Council  
Pleasant Grove City Corporation  
Pleasant Grove, UT

We have completed our audit of the general purpose financial statements of Pleasant Grove City Corporation for the year ended June 30, 2006 and have issued our report thereon dated January 5, 2007. Professional Standards require that we provide you with the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Pleasant Grove City Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Pleasant Grove City Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Pleasant Grove City Corporation's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Pleasant Grove City Corporation's compliance with those requirements. While our audit provides a reasonable basis for our

opinion, it does not provide a legal determination on Pleasant Grove City Corporation's compliance with those requirements.

#### Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pleasant Grove City Corporation are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process. We did propose and make certain reclassifying, and closing entries to properly reflect required recognition of revenues, expenses, and financial position in accordance with U.S. generally accepted accounting principles.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Utah State Compliance Findings - Current Year

#### 06-1 Other General Compliance Issues

**Finding:** The Redevelopment Agency has a deficit fund balance.

**Recommendation:** The City should make the proper adjustments to correct this deficiency.

**City's Response:** We concur and will make the adjustment as future revenues become available.

#### 06-2 Other General Compliance

**Finding:** The budgeted expenditures of the general fund were increased without holding the proper public hearing.

**Recommendation:** Budgets of governmental fund types should only be increased after the proper public hearing as required by law.

**City's Response:** We will hold the proper hearings as required before making any budget increases.

#### 06-3 Budgetary Compliance

**Finding:** The Redevelopment Agency had expenditures that exceeded the adopted budget.

**Recommendation:** The City should make proper budget adjustments so budgeted expenditures are not exceeded.

**City's Response:** We concur and will monitor the budget and make amendments as needed.

### Utah State Compliance Findings - Prior Year

#### 05-1. Other General Compliance Issues

**Finding:** The Redevelopment Agency has a deficit fund balance.

**Recommendation:** The City should make the proper adjustments to correct this deficiency.

**City's Response:** We concur and will make the adjustment as future revenues become available.

**Auditor's Response:** See current year finding 06-1.

05-2. **Other General Compliance**

**Finding:** The fund balance of the General Fund exceeds the amount allowed by law.

**Recommendation:** The fund balances should be decreased to be within the amounts allowed by the Utah Code.

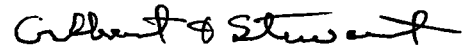
**City's Response:** We will make the proper adjustments to the General Fund balance.

**Auditor's Response:** The City is in compliance in the current year.

We wish to express our appreciation to the City personnel for the friendly and enthusiastic help extended to us during the course of examination.

This information is intended solely for the use of the management of Pleasant Grove City and should not be used for any other purpose.

Sincerely,



GILBERT & STEWART  
*Certified Public Accountants*